EXHIBIT 12
DATE 2/18/2011
HB 527

HB 527 Presentations

In the news, we keep hearing about the current economic downturn and how hard it is on cities, counties and states to remain fiscally sound. In fact, in the packet there is an article found at Freedom Arizona from January 2009. They claim that 46 out of the 50 states could go bankrupt. Truth is many states are running such high deficits that if possible they would welcome it.

There are many factors causing the high deficits. One of the causes is the Public Sector Union.

- The center's researchers found in the wake of the stock market collapse that measures of pension program solvency hit a 15-year low with no signs of improvement on the horizon. This means taxpayers will be left picking up the tab. (MPI research indicates a state pension unfunded liability of between $2 billion and $4 billion depending on assumptions used and funds measured. The full study is available here: http://www.montanapolicy.org/files/pdf/State%20Spending%20Growth%20Study_11-9-10_ver2.pdf and a shorter policy note summarizing the study is available here: http://www.montanapolicy.org/files/pdf/Spending_Growth_and_Deficits_policy_note.pdf)
    - Since Montana's Constitution protects those currently in the pension system from having benefits cut, any changes can only apply to future hires, heightening the need to act now.
    - While public employees received modest wage increases over the past ten years, state and local governments effectively kicked the can down the road by accepting significant increases in long term benefits for public employees. That chicken has come home to roost.)
- Ever-expanding public-sector unions have flexed their political muscle and larded up with lavish benefits to be paid out decades from now.
    - These defined benefit programs shift the market risk from individual employees to the taxpayer, effectively putting them on the hook for any economic downturns during the life of the benefit receiver. Taxpayers are hit twice as they see their own savings and benefits diminished since the vast majority of private retirement plans are defined contribution, and they must see increased taxes to cover the defined benefit pension plans of their public employees.
- In a properly run, private-sector business, future retirement benefits are paid for using present-day contributions.
    - The accounting requirements for amortizing private plans are more stringent than those for public plans, resulting in hidden costs down the road.
- This is not the case when lawmakers have the power to boost public-employee benefit packages while using accounting gimmicks to conceal and pass on the debt to future generations.
    - Another way to look at it is that public employee unions spend enormous amounts of money to get their allies elected and their allies pay them back with taxpayer dollars.

We have all heard similar challenges with our own states budget.

We are experiencing trying times and we need tools that will give relief to our burden and allow us to meet our future obligations. HB 397 is such a tool.

This bill would allow a government entity, be it a city, county, school district or the state such a tool. The government entity would have to show they could no longer afford to support the labor contract once in negotiation. They would have to show the extreme hardship the terms would be and the effects upon the interest and welfare of the public.

- It is only fair that our public employees live under the same strictures and requirements as do their employers – the taxpayers. A private business must base compensation decisions both on the value of the employee and on its ability to pay. The public sector should likewise be obliged to consider what taxpayers can reasonably afford to pay at least on a par with historical compensation figures.

If the reasonable financial ability of the unit of government to meet the costs of the proposed contract, giving consideration and weight to the other services provided by the unit of government are met the arbitrator may not consider the overall compensation presently received by the employees, including direct wage compensation, holiday pay, other paid excused time, insurance, medical benefits, shift schedules and hours, and all other direct or indirect monetary benefits.

In calculating the benefits to be paid, the arbitrator shall calculate those benefits on a de novo basis that is based on an examination of the financial strength and solvency of the unit of government that is the public employer.

The goal is for the unit of government to be able to meet the level of services expected by the public while being able to meet all long-term future employment expectations, labor expects.

- While many wish that government could provide for all needs, the facts simply is that there are limited resources available and the responsible thing to do is to prioritize expenditures where they do the most good and fulfill legitimate government responsibilities. We should neither kick the spending can down the road for future leaders to deal with nor rob resources from the private sector that could be used for real long term growth and prosperity.

In short, the starting fresh concept of the new labor contract must ensure fiscal soundness and ability to meet both the level of services and pay their employees. And to balance priorities in a way that is fair to the employees and to the taxpayers.

The burden of proof lies upon the unit of government and is not one to be taken lightly. It is an extreme measure to avoid 'bankruptcy' or reduction of the vital services the public expects to receive.

We as the legislative body have a duty to ensure units of government are not forced into accepting dangerously high deficits levels, where the checks bounce and our employees lose their jobs. (I think this is a vital point – that you're not trying cut employee pay, you're trying to instill fiscal discipline in a way that nurture long term sustainability in the public payroll rather than having a crash when the bills come due.

MONTANA POLICY INSTITUTE

State Spending Growth and Future Deficits:
How Montana Went From Surplus to Shortfall
MPI Policy Note 04-10

Based on the MPI Study

BOTTOM LINE UP FRONT:
The looming near-term and structural deficits in Montana's budget are a cumulative and predictable result of years of spending decisions and state budgeting practices. The primary cause is a large increase in ongoing spending enabled by rapid revenue expansion over several biennia followed by a cyclical drop in revenues. Contributing to this problem is a budget process that pays too little attention to efficiency or effectiveness, fences off significant dedicated revenues to earmarked appropriations, and that allows delays in addressing unfunded pension liabilities.

Surging state revenues enabled rapid spending increases beginning in 2004.

- The Consumer Price Index (CPI) grew 13.9% and Montana's population grew 4.6% from FY2004 to FY2008. These two measures are often combined to represent a targeted zero real growth rate for state government. Spending above 18.5% in this case represents growing government, while spending below 18.5% represents shrinking government.
- General Fund spending increased by 42% from FY2004 to FY2008. Earmarked Revenue spending increased by 61% during the same period, resulting in real state spending growth of between 23.1% and 42.5% from FY2004-FY2008.
- As revenue estimates increased during this period, successive legislative sessions raised expenditure commitments in parallel. In other words, more revenue meant more spending. Less than 10% of excess revenues were returned to taxpayers. Debate centered on "how" not "whether" to spend the tax windfall.
- While some of this revenue windfall went to one-time expenditures such as capital projects, most went into the base budget for new and ongoing programs.
- Montana's budget system takes the previous year's budget as the starting point for future years. This means that spending increases based upon windfall revenues are automatically continued into the next budget regardless of their efficiency and effectiveness, or whether revenues return to their lower traditional levels.

Spending Increases: Where did the money go?

- The report lists yearly spending from FY2004-2008 by state Agency. The highest growth was in the Department of Administration at 447%. Eleven agencies increased at 50% or more. Three agencies had decreased budgets. Average growth was 54%.
- The report's appendix details expenditures and revenues for these ten agencies that grew the most in dollar and percentage terms from FY2004-FY2011: Administration, Commerce, Corrections, Health and Human Services, Revenue, Transportation, Judiciary, University System, Public Instruction, and Auditor.
- While FY2009 revenues decreased by nearly 10%, federal stimulus and other spending delayed the hard choices necessary to bring Montana's budget back to sustainable levels. As federal monies run out, we are faced with a nearly $400 million near-term shortfall and a multi-billion dollar structural deficit, the difference between expected future revenues and legislated future spending.

- Given projected revenues, state spending would have to return to FY2005 or FY2006 levels to achieve balance.

Montana's budgeting process contains many impediments to sustainable spending.

- The current "Present Law" budget system encourages budget growth and does not reward, punish, or even measure program effectiveness or efficiency.
- As described in this report and in more detail in MPI's "Budgeting for Fiscal Discipline," the current system simply adds to the previous budget and does not measure program performance or need when crafting future year budgets.
- In addition, in FY2009 438 earmarked funds received $1.2 billion in dedicated revenues. This spending receives little to no legislative oversight. In addition, dedicated revenue sources often have little or no relationship to their earmarked expenditures. They are simply special interest carve outs that escape normal budget oversight procedures.
- Montana's public employee pensions also represent future unfunded mandatory spending of between $2 billion and $4 billion. These unfunded mandates represent a passing of current liabilities to future generations.
- Finally, Montana's permanent trust funds currently hold approximately $1.5 billion that is not available to meet other state priorities. These funds represent additional carve outs largely beyond the oversight of elected officials.

Montana's budget woes resulted from undisciplined spending and a broken system.

- Montana's government revenue grew at nearly three times the rate of the economy that supports it, and elected officials ramped up spending to match.
- Since our budget system uses past spending rather than present needs as its starting point, when revenues fall we must either decrease spending or find new revenue sources.
- MPI believes that the spurt in spending since 2004 was irresponsible and unsustainable. This report describes why and where that increase occurred. It is up to elected officials to decide where and how to return to fiscal responsibility.

The Montana Policy Institute is a 501(c) (3) policy research organization that equips Montana citizens and decision makers to better evaluate state public policy options from the perspective that policies based upon limited government, individual rights, and individual responsibility will result in the greatest common good. To find out more or for copies of the complete study, visit us at www.montanapolicy.org. NOTHING WRITTEN here is to be construed as an attempt to influence any election or legislative action.

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A Path Is Sought for States to Escape Their Debt Burdens

By MARY WILLIAMS WALSH
Published: January 20, 2011

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Policymakers are working behind the scenes to come up with a way to let states declare bankruptcy and get out from under crushing debts, including the pensions they have promised to retired public workers.

Enlarge This Image

Stephen Crowley/The New York Times
Senator John Cornyn asked this month whether Congress should consider establishing a bankruptcy procedure for states.
More Photos »

Unlike cities, the states are barred from seeking protection in federal bankruptcy court. Any effort to change that status would have to clear high constitutional hurdles because the states are considered sovereign.

But proponents say some states are so burdened that the only feasible way out may be bankruptcy, giving Illinois, for example, the opportunity to do what General Motors did with the federal government's aid.

Beyond their short-term budget gaps, some states have deep structural problems, like insolvent pension funds, that are diverting money from essential public services like education and health care. Some members of Congress fear that it is just a matter of time before a state seeks a bailout, say bankruptcy lawyers who have been consulted by Congressional aides.

Multimedia

Slide Show
Weighing In on State Bankruptcies

Bankruptcy could permit a state to alter its contractual promises to retirees, which are often protected by state constitutions, and it could provide an alternative to a no-strings bailout. Along with retirees, however, investors in a state's

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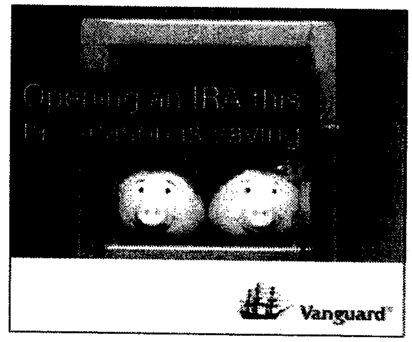

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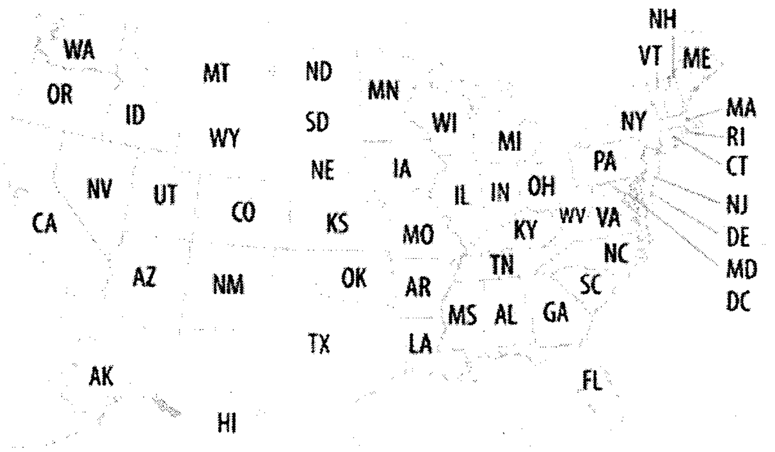
46 Of 50 States Could File Bankruptcy In 2009-2010

January 30, 2009 John Paul Mitchell Leave a comment Go to comments

There is a high chance a majority of the States within the United States of America could file for Chapter 9 bankruptcy. There are currently 46 states with high budget deficits, Arizona being one of them.

FIGURE 1

41 States Face Budget Shortfalls



Note: Includes states with shortfalls in fiscal 2009 or projected shortfalls for fiscal 2010.

In fact, Jan Brewer, the newly appointed Governor of Arizona has a major crisis on her hands, one that Arizona and national media isn't covering. The alarming news is the State of Arizona has 90 to 120 days before they completely run out of money. After that, all bills and tax refunds owed to the citizens will go unpaid.

Before Janet Napolitano left for her new Homeland secretary position, she had a stand-off with Arizona Treasurer Dean Martin. The AZ Treasurer forewarned Napolitano about Arizona's financial crisis, but she refused to heed his words.

With neighboring California on the verge of bankruptcy this year, many States will follow in their steps.

Many States are already scurrying to cut unwanted costs, cut State-funded programs, raise taxes, not issue tax refunds to their citizens, and borrow money just to survive in 2009. Unfortunately, many banks — the same banks the Fed bailed out — are refusing to loan money to the States and their Treasury agencies.

The article, State Budget Troubles Worsen, at the Center on Budget and Policy Priorities website is an excellent piece to read. It shows where each State currently stands in these challenging economic times, and you see 46 of the 50 States are clearly in the financial red.

It's very possible you'll see the end of the United States as we know it. If the Fed doesn't bailout the States when their cash dries up and the banks don't loan them money, then our States will be left in financial ruin. This would be a tragic and unprecedented event never experienced in the United States.

No State has ever filed bankruptcy, but it could be coming to a State near you this year.

We are on the brink of something far worse than the Great Depression.

UPDATE: Check out the newly published article, Survivalism: How to Prepare for the Economic Collapse. There's also a printable 4-page newsletter you can download and share with your friends, family, and co-workers. Take action and help spread the awareness of this life-threatening issue.

NATIONAL CENTER FOR POLICY ANALYSIS

Ideas Changing the World

Daily Policy Digest

Unions

April 26, 2010

PUBLIC-SECTOR UNIONS BANKRUPTING AMERICA

Usually it takes a national government to spend itself into a debt measured in the trillions. Yet it comes as little surprise that the same profligacy that pervades the corridors of federal power infects this country's 87,000 state, county and municipal governments and school districts. By 2013, the amount of retirement money promised to employees of these public entities will exceed cash on hand by more than a trillion dollars, says the Washington Times.

That's according to the Center for Retirement Research at Boston College, which earlier this month released a troubling analysis of 126 state and local pension plans:

- The center's researchers found in the wake of the stock market collapse that measures of pension program solvency hit a 15-year low with no signs of improvement on the horizon.
- This means taxpayers will be left picking up the tab.

The reason pension plans are headed toward financial disaster is simple, says the Times:

- Ever-expanding public-sector unions have flexed their political muscle and larded up with lavish benefits to be paid out decades from now.
- In a properly run, private-sector business, future retirement benefits are paid for using present-day contributions.
- This is not the case when lawmakers have the power to boost public-employee benefit packages while using accounting gimmicks to conceal and pass on the debt to future generations.

California's public-employee retirement system stands in the most perilous condition, facing a half-trillion dollars in unfunded liabilities, says the Times:

- That's not surprising when you consider a California highway patrol officer can retire at age 50 and collect up to 90 percent of his salary for the rest of his life.
- According to the agency's website, a typical officer's pay will reach $109,147 after just

five years on duty -- an amount that can rise significantly with overtime benefits.

- That means a fit and healthy 50-year-old "retiree" who began work at age 20 would receive $98,232 a year from taxpayers for the rest of his life, and nothing prevents him from taking another government job to collect two paychecks; this form of double-dipping is rampant.

Source: Editorial, "Public-sector unions bankrupting America; State and local governments face looming pension crisis," Washington Times, April 23, 2010.

For text:

http://www.washingtontimes.com/news/2010/apr/23/public-sector-unions-bankrupting-america/

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Bankruptcy judge dissolves labor contract: a first?

By Ed Mendel

In what may be the first action of its kind, a federal bankruptcy judge dissolved a City of Vallejo labor contract this week.

But the overturning of a public employee labor contract, opposed by labor unions and CalPERS (a top creditor owed $84 million), comes after a long and expensive bankruptcy process.

The City of Vallejo's legal costs since declaring bankruptcy in May of last year, a widely watched move prompting a labor-backed legislative attempt to control local government bankruptcies, have reportedly reached $5 million.

Overturning the contract of the electrical workers union, a lone holdout after three other unions reached an agreement, saves the city an estimated $860,000 in salary increases during the final two years of the contract.

U.S. Bankruptcy Judge Michael McManus in Sacramento said in a landmark ruling last March that labor contracts can be dissolved in a municipal bankruptcy, if the standards for dissolving contracts in corporate bankruptcies are met.

But the judge also made it clear that he was reluctant to actually dissolve the Vallejo labor contracts, repeatedly noting during one hearing that overturning a contract would result in negotiations for a new contract.

As he queried lawyers for the city and the unions, the judge seemed to be suggesting: Why not begin negotiating now, instead of waiting for the court to force talks by overturning the contract?

Police and a small bargaining unit of managers and professionals agreed to revised contracts last January. The judge ordered mediation in April for firefighters and the International Brotherhood of Electrical Workers.

There was no movement for months as the unions appealed a McManus ruling last September that Vallejo was eligible for bankruptcy under Chapter 9. The unions argued that the city had untapped money in funds restricted for transportation and other purposes.

The ruling that Vallejo was eligible for bankruptcy was upheld in June by a three-judge federal bankruptcy appellate panel in Los Angeles. An appeal of the ruling was not withdrawn by the firefighters and electrical workers until early last month.

Then on Aug. 26, the city announced an agreement that overturned its contract with the International Association of Firefighters. If talks do not produce a new contract by Sept. 30, mediation begins and, if necessary, arbitration to produce a new contract.

"This is the same process the parties would have followed had the agreement not been reached and Judge McManus ruled in the city's favor on its rejection (of the contract) motion," said a city news release.

The judge ruled Monday (Aug. 31) in favor of the city's motion to reject the collective bargaining agreement with the electrical workers, finding that mediation had failed and that the city had made a "reasonable" attempt to negotiate.

An expert on municipal bankruptcy, James Spiotto, a partner in the Chapman and Cutler law firm in Chicago, said he does not recall any other cases where a judge dissolved a municipal labor contract.

"It may be a first, at least in recent memory, of a union contract being up for decision as to being rejected," he said.

Spiotto recalled that a San Jose school district declared bankruptcy in 1983, contending that it could not pay teachers an amount resulting from a labor arbitration in a salary dispute.

"They ultimately settled with the teachers with a different amount they felt they could pay, and they dismissed the bankruptcy," he said. "There wasn't any real court decision on it. They basically worked it out."

Currently, said Spiotto, it's "a time of stress for a lot of municipalities. Unfunded pension liabilities — in some people's count, it's over $1 trillion state and local. Those are big issues, especially now when every dollar counts."

Spiotto said he thinks "the message from Vallejo — and it's a little like going to the eye doctor when he says, 'Is it clearer now, or is it clearer now?' — is do you have to go through the court hearings?"

He said if municipalities and labor loosen their positions and work together to avoid going into Chapter 9 bankruptcy, there is less "stress" and more money from early savings to help solve problems.

Spiotto said Vallejo should be a reminder that if labor contracts become so burdensome that a municipality cannot afford them, cities can go to court and get a plan of adjustment and a fresh start.

"I think it stated what the law was," Spiotto said of the McManus ruling in March that city labor contracts can be dissolved in bankruptcy.

"But I think it was an articulation that hadn't been made before," he said. "So I think it was an awakening for people who didn't read the fine print of the Chapter 9 bankruptcy code."

In its bankruptcy filings, Vallejo said the city expected to begin the fiscal year in July of last year with an estimate of $77.9 million in general fund revenue, less than its $79.4 million cost for labor.

The city has made some savings by freezing salaries under bankruptcy, not filling vacancies and cutting services. Most of the members of the electrical workers union are paid from restricted special funds, not the deficit-ridden general fund.

McManus said the electrical workers, unlike other unions, did not make salary concessions as the city attempted to avoid bankruptcy. The hard line apparently continued in negotiations after bankruptcy.

An electrical workers union official told the Vallejo Times-Herald earlier this week that it's not clear whether the judge's ruling will be appealed or when talks on a new contract might begin.

"We're meeting and conferring with our attorneys and international reps," Ken Shoemaker, IBEW vice president, told the newspaper. "We're kind of weighing all our options and where we go from here and what this actually means for our members."

A bill requiring local governments to get the approval of the California Debt and Investment Advisory Commission before declaring bankruptcy, AB 155 by Assemblyman Tony Mendoza, D-Norwalk, passed the Assembly but stalled in the Senate.

At the top of the list of creditors when Vallejo filed for bankruptcy last year were retiree health care, $135 million, and the California Public Employees Retirement System, $84 million.

The city has paid the legal fees of a group formed to represent retirees in the bankruptcy. CalPERS used its own attorney to oppose the rejection of the labor contracts.

But so far, the Vallejo bankruptcy seems to have had little direct impact on retirement matters.

Reporter Ed Mendel covered the Capitol in Sacramento for nearly three decades, most recently for the San Diego Union-Tribune. More stories are at http://calpensions.com/ Posted 4 Sep 09

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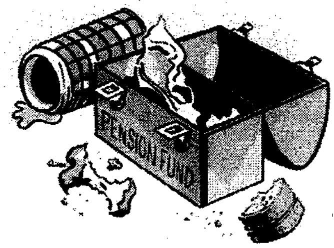
The Washington Times

EDITORIAL: Public-sector unions bankrupting America

By THE WASHINGTON TIMES

-

4:00 a.m., Friday, April 23, 2010



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While most private-sector firms have trimmed their work force during the recession to achieve more efficient and profitable operations, public agencies have expanded. State and local governments employ about 15 million individuals, a figure that has jumped up 40 percent from 1992. By 2016, the number of state and local bureaucrats is projected to reach 20 million. Too many of these people are being promised far too much money, leaving state and local systems as bankrupt as Social Security, Medicare and other multitrillion-dollar federal entitlements.

To his credit, California Gov. Arnold Schwarzenegger considers addressing his state's "pension bubble" to be one of his top priorities. On Wednesday, he introduced legislation that would raise the full retirement age for new police hires to 57 and reduce the benefit paid in our example to $88,409. It also would reclassify billboard and milk inspectors as "miscellaneous" employees, instead of "safety" workers entitled to bigger handouts.

Despite the modest nature of the proposed changes, it's unclear whether California lawmakers have the backbone needed to pass the measure over the objection of the all -powerful union voting bloc. The rest of voters across the nation, the ones who will be paying for this mess, need to wake up and encourage legislators to reform public pensions before it's too late.

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February 8, 2011

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Cash-Strapped States Seeking A Way To Declare Bankruptcy

The Huffington Post William Alden First Posted: 01/21/11 01:00 AM Updated: 01/21/11 01:26 PM

States are looking for relief.

As they confront massive debts and diminished revenue, some state officials are trying to determine whether they could take a drastic and illegal step: declaring bankruptcy, the *New York Times* reports. Such a move, though currently out of the question, might free states from some of their most burdensome debt and allow them to rebuild their crippled finances.

After years of spending generously, and after decades of hiking pension promises to employees, states now find themselves squeezed. Diminished tax revenue is, in many cases, insufficient to cover long-term obligations, as states face a combined pension fund shortfall of $3 trillion, according to two finance professors' estimate. Bankruptcy would, in theory, allow states to rework these obligations, potentially causing pain for retirees and bondholders, and likely spreading uncertainty through financial markets.

Even holders of state bonds -- traditionally considered a rock-solid investment -- could end up taking a loss, the *NYT* says.

All talk of state bankruptcy is in hypothetical terms, as there remains little, if any, precedent. The most recent example of a state credit event happened during the Depression, when Arkansas defaulted on its debt. But legal bankruptcy protection, in which states would theoretically be able to restructure their obligations in court, is unconstitutional, since states are considered sovereign entities.

Even municipal bankruptcy, which is allowed under some state constitutions, is rare. The current poster child is Vallejo, Calif., which was driven into bankruptcy nearly three years ago in an attempt to escape mounting labor costs. The biggest example is Orange County, which declared bankruptcy in 1994 after the treasurer gambled on Wall Street with the public money, and lost. He was later sentenced to prison time.

Some American cities have flirted with bankruptcy. Harrisburg, Pa., has gotten legal advice on a potential filing. Hamtramck, Mich., has sought bankruptcy protection and been denied by the state of Michigan.

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Perhaps the only precedent one can point to is a crisis simulation at *The Economist*'s Buttonwood Gathering in New York City, held in October. Performing the roles of Federal government officials were, among others, former Treasury secretary Robert Rubin, former National Economic Council director Laura Tyson and former chief of staff Josh Bolten. Their task was to simulate the Federal government's response to a state's request for a bailout.

For the most part, the actors were able to stay in character -- until Tyson fumbled, accidentally referring to the fictional state New Jefferson as "California."

Analyst Christopher Whalen, for his part, says he believes California will default on its debt.

states bankruptcy

Should States be Allowed to Declare Bankruptcy?
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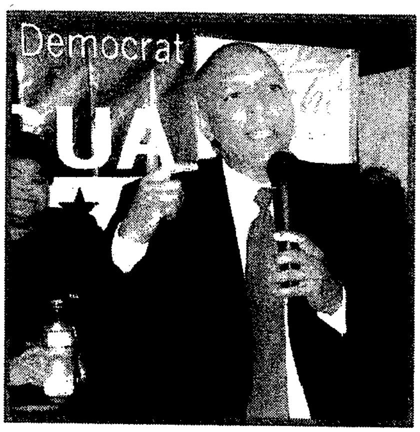
CHAOS in LAWRENCE

State to Secure $35M Bailout Loan for Bankrupt Lawrence



Tom Duggan

If Governor Deval Patrick has his way, the City of Lawrence will be able to borrow $35 Million to pay for their (to date) $24.5 million deficit. House Bill 4421 will allow Lawrence to borrow the money which would be backed by state taxpayers and have no fiscal control board, no receiver and no oversight. State Representatives David Torissi, (D) North Andover, Barry Finegold (D) Andover and Willie Lantigua (who also serves as mayor) all support the bill.

Lawrence Mayor Willie Lantigua is also the Lawrence State Representative in the legislature and serves on the powerful Ways and Means Committee. He will be able to vote on the very bill that will give him a $35 million loan to spend as the mayor of Lawrence.

No Infusion of Capital?

Last month Governor Deval Patrick told the Valley Patriot that the help he and the state would be giving to Lawrence would not be financial but would help Lawrence become more accountable with the millions of dollars Lawrence spends every year.

"I will say that what we are looking at in Lawrence is not an infusion of capital," he told a Valley Patriot reporter. "it's getting at some reforms that make sure that they get on sounder fiscal footing and management so that this sort of thing doesn't happen again." (AUDIO OF INTERVIEW WITH THE GOVERNOR) (RELATED STORY)

Governor Patrick is now lobbying heavily for the $35 million loan for Lawrence at the state taxpayers expense. All the while Lantigua has been using his power as mayor to settle political scores, which will cost the city millions in unemployment compensation, lawsuits and contract labor disputes.

The Hit List

So far, Lantigua has fired Myles Burke, the city's Inspectional Services Director, tried unsuccessful to fire Planning Director Mike Sweeney, and fired Mary Lou Nichols an office manager at the DPW. He demoted Deputy Chief Mike Driscoll and promoted his campaign manager Sgt. Melix Bonilla to be Deputy Chief.

He also targeted Recreation Director Linda Schiavone but withdrew her name from the council agenda after reaching a secret deal with her to stay on until June and then retire on her own. Lantigua refuses to disclose the terms or the details of that deal. Coincidentally, Burke, Nichols, Sweeney, Driscoll, and Schiavone, all openly supported Lantigua's rival Dave Abdoo in the mayors race last November.

Because Lantigua chose to lay off Mike Sweeney and other city workers he will be paying unemployment to at least a dozen employees as well as those he plans to hire to refill those jobs. According to postings in Lawrence City Hall, Mayor Lantigua has since posted the jobs of employees he has laid off, in violation of state law.

If HB 4211 passes, State Representative Lantigua, who also serves as mayor of Lawrence, will be in charge of spending that $35 million.

No Cash Flow

Lawrence has been deficit spending since January because City Council President Patrick Blanchette adjourned the '08-'09 City Council session without setting a tax rate and

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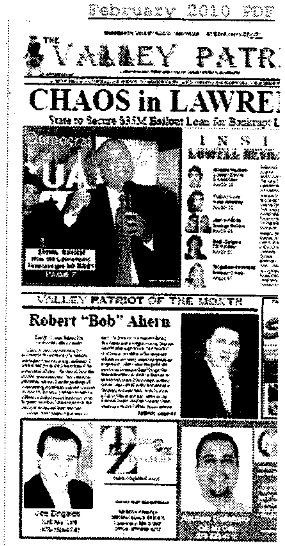

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sending out the property tax bills. As of the date we went to press (February 4th) the tax rate in Lawrence under the new council has still not set a tax rate or sent out property tax bills. This means the City of Lawrence has no cash flow while continuing to pay for police, fire, dpw services and other city functions.

According to Mayor Willie Lantigua the city's deficit has climbed from $9.5 Million in early December, to $17.5 million by the beginning of January, to $24.5 Million by the end of January. Lantigua says he inherited the budget mess and shouldn't be penalized for prior mismanagement. But Lantigua's new acting Economic Development Director, Patrick Blanchette was chiefly responsible for the city's financial crisis.

Interference/Lack of leadership

In the last two years, the Lawrence City Council has raided the school building construction account, the cash reserve account and refused to raise fees, permits and fines, contributing to Lawrence's dwindling cash flow.

The city has been hit with massive cuts in state spending in the last two years. At one point Lawrence took a $10 million cut in state funding. Mayor Sullivan restructured the budget to bare bones with no layoffs in city personnel, but further cuts in state aid, a lagging economy, and a burst in the real estate market have all lead to Lawrence's financial demise.

In addition to all that, Lawrence has not held a stable Budget and Finance Director in the last eight years. This was due to city councilors abusing their authority and threatening city workers with their jobs if they did not comply with political demands.

Former Budget Director John Griffin resigned after a few short months in the budget position, telling The Valley Patriot that it was constant interference and dirty politicking by Council President Patrick Blanchette that lead to him resigning. Griffin said at the time that he was constantly being harassed and bullied by Blanchette and other city councilors to sign off on expenditures or change budget numbers to suit their political agenda.

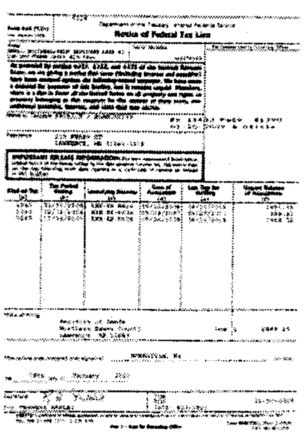
Former Comptroller Jim Limpiris told the Valley Patriot in May of 2007 that Council President bullied him into making expenditures he felt were "illegal." According to the city charter, the Council President has no authority over the day to day operations of the city and only has the authority to officially act when at the council table.

Limperis says that on several occasions he refused to sign off on city expenditures that he found contained "very suspicious activity" and fell under the category of "excessive spending." According to emails and memos obtained by The Valley Patriot in 2007, Limperis refused to sign off on non-union raises. He also questioned how the city could legally give raises to non-union workers when no money was available in the city budget and while collective bargaining was still in progress with the city's 22 labor unions.

That's when Council President Patrick Blanchette sent an email to Limperis demanding that he not question the expenses, stating:

"Again, the city council voted to appropriate money in the form of a transfer. No other questions should be asked. Let's stop with the games and leave our difference at the door. Unfortunately I think titles are going to some people's heads. Even though signatures are needed - it does not allow for people to be obstructionists. Also, no need to involve someone from DOR (Department of Revenue) in this city matter. Let's keep our issues in our own house."

Limpiris says that during the entire seven months he was comptroller, he routinely experienced harassment and interference from Blanchette to approve expenditures he felt were "illegal" because there was no funding source for Blanchette's appropriations.


Notice of Federal Tax Lien

Lantigua's New Economic Development Director?

Former Council President Blanchette has not only mismanaged the finances of the city of Lawrence but has also mismanaged his own personal finances. In early 2009, the IRS put a tax lien on Blanchette for his refusal to pay approximately $9,000 income taxes over a period of three years. To date, Blanchette has not paid his income taxes.

At the time Blanchette failed to pay his taxes he was making $70,000 as a conciliator in the industrial accidents Board in Boston, $17,000 as the city council president, had a free cell phone, blackberry, an out of state travel budget to go on junkets, free health insurance and contributions to his pension.

Blanchette does not own a property, is not married and has no children.

Lawrence Mayor Willie Lantigua has named Blanchette to be his acting Economic Development Director and will be largely responsible for spending the additional $35 million Deval Patrick is going to let Lawrence borrow with the backing of your state tax dollars.

CLICK for larger EAF Form Where Blanchette signs off on his own raise while city workers are being laid off.

Conflicts of interest

Lawrence's new mayor Willie Lantigua appointed Blanchette to a city job in violation of a state law that prohibits elected officials in local municipalities from taking city jobs in the communities they served for at least six months after leaving elected office.

Mass General Laws Chapter 268A. states:

"This section shall not prohibit an employee of a municipality with a city or town council form of government from holding the elected office of councilor in such municipality, nor in any way prohibit such an employee from performing the duties of or receiving the compensation provided for such office; provided, however, that no such councilor may vote or act on any matter which is within the purview of the agency by which he is employed or over which he has official responsibility; and provided, further, that no councilor shall be eligible for appointment to such additional position while a member of said council or for six months thereafter. Any violation of the provisions of this paragraph which has substantially influenced the action taken by a municipal agency in any matter shall be grounds for avoiding, rescinding, or canceling such action on such terms as the interest of the municipality and innocent third parties require."

Blanchette, who lost the mayor's race when it was learned that he refused to pay three years worth of income taxes to the IRS was legally responsible for the city's budget according to the city charter. When he left office on Monday, January 4th, Blanchette left the city with a $17.9 million budget deficit, did not set a tax rate or balance the budget as required by law.

Keeping the seat open for himself

Fired Economic Development Director Thomas Schiavone was denied a contract by Blanchette and the city council two months before the end of Blanchette's term. Schiavone had spent nine years on the job without a contract. Blanchette not only voted against Schiavone's contract, but as the council president he lead the charge to convince other councilors to vote against Schiavone's contract as well. Two months later, Mayor Lantigua appointed Blanchette to Schiavone's job, which was only vacant because Blanchette himself denied Schiavone a contract keeping the job open for himself.

Schiavone, as well as other members of the Sullivan team say they plan on taking legal action against the city and have already retained lawyers to represent them in a lawsuit against Lantigua.

Blanchette/Councilors took while services were being cut

At the same time the Lawrence Police Union, Fire Union and laborers unions in the of Lawrence were taking furloughs, facing layoffs and losing benefits, Patrick Blanchette and the Lawrence City Council raised their own pay. In the six years Blanchette has been president of the council he has raised the city council pay from $5,200 per year (times nine councilors) to $15,000 per year with a <u>$2,500 bonus for the council president himself.</u> The Lawrence City Council also had free cell phones, blackberries, an out of state travel allowance to go on junkets, free health insurance and payments into their pensions.

Three city councilor fought during the last budget cycle to cut the council's pay and reduce their own budget, but Blanchette and his Budget Committee Chairman Grisel Silva buried it in committee and the proposal never saw the light of day. During the subcommittee discussion Silva said she would not support a cut in the council's pay because she "could not afford to take a furlough".

Since then Lawrence has laid off essential personnel, reduced benefits for city workers, cut staff, become slow to pay vendors doing business with the city, closed two fire stations, is down to one food inspector and the city council has yet to reduce their own pay, perks or their budget ... even under the new council.

Over their Heads

Two years ago the Lawrence City Council was so bogged down with petty squabbles and political agendas that they were incapable of passing the city budget. After three months of stalling a budget vote, (then) Mayor Sullivan had to go over their heads and get the city budget Certified by the Massachusetts Department of Revenue without a vote of the city council. Councilors had violated so many policies and procedures while trying to hold up the Sullivan budget that Sullivan had the legal footing to go over their heads, in effect rendering them irrelevant. City Councilors vowed revenge against the Sullivan administration for putting an end to the dog and pony show that included screaming fits, degrading members of the public from the council table, berating city employees and wild accusations about conspiracies.

No End in Sight

Even if the Lantigua administration in Lawrence gets the $35 million loan, that will only go to pay for the current operating deficit in city expenses. A new budget cycle will begin July 1st, if the new city council passes a 2010-2011 budget on time. That budget will include additional cuts in state aide, increases in pension and unemployment payments, raises for union and contracted employees, a lagging economy, a decrease in local property tax revenue and the expense of repaying a $35 million loan that the state is allowing them to borrow.

Lowell State Representative Tom Golden (D), Lowell, and several other state representatives on Beacon Hill have already said they oppose giving Lawrence a state backed, $35 million loan to cover operating costs in the current city budget unless there is an oversight board and a receiver to control the money Lawrence's mayor will be allowed to spend. Several reps. have predicted that this would be "bailout 1" for Lawrence as the economic prospect for Lawrence's financial future "is going to get worse before it gets better".

Governor Patrick and officials at the Department of Revenue say that if House Bill 4421 is passed without a receiver or fiscal oversight board, Mayor Lantigua and the Lawrence City Council will have until January of 2011 to get their fiscal house in order or face full receivership.

But some state officials like Karyn Polito (R) Shrewsbury, say that is too late with the financial crisis in the state getting worse every day and the deficit in Lawrence becoming insurmountable to the point where Lawrence is no longer solvent.
Mayor Lantigua has yet to name an economic team or present a spending plan to manage the city's finances, nor has he revealed what he would do with the $35 million if the legislature passes the loan measure.

Related Story> Sweeney pens letter to the ethics commission: As Deadbeat Dad Lantigua admits getting ex-wife a job in the Police department

Lantigua Attorney likens firing employees to Normandy Invasion

Tom Duggan is the president of Valley Patriot, Inc., a former Lawrence School Committeeman, and hosts the Paying Attention! Radio Program on WCAP, 980AM, every Saturday from 10am-1pm. You can email your comments to Tdugjr@aol.com

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